

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6467

Petition of Theodore G. Hedges & Sons, Inc.)
d/b/a Crystal Springs Water Company, for)
approval to borrow up to \$600,000 for the)
general upgrade of its system.)

Order entered: 5/15/2002

I. INTRODUCTION

On January 2 , 2001, Theodore G. Hedges & Sons, Inc. d/b/a Crystal Springs Water Company ("Crystal Springs" or the "Company"), submitted a petition seeking Public Service Board (the "Board") permission under 30 V.S.A. § 108(a) for approval to borrow up to \$600,000, to fund the general upgrade of the Company's water system. The majority of the loan is to fund reconstruction of certain transmission lines. The Company anticipates borrowing funds maintained by the Vermont Agency of Natural Resources, Department of Environmental Conservation, Water Supply Division ("WSD"), administered by the Vermont Economic Development Authority ("VEDA"). However, in the event the VEDA loan is denied, the Company is requesting permission to enter into alternative financing arrangements, including self-financing.

In a letter dated April 17, 2001, I requested from the petitioner additional information pertaining to the necessity of the various proposed projects, Crystal Springs' compliance with existing applicable water quality and service standards, and the expected impact on rates from the new debt. Mr. Hedges responded on November 12, 2001, and provided the answers to the Hearing Officer's questions. After clarifying the Company's intent and consulting with WSD, on January 18, 2002, the Vermont Department of Public Service (the "Department") recommended the Board find the petition consistent with the general good of the State of Vermont.

I have reviewed the petition, correspondence and supporting evidence and conclude that approval of the Company's petition to borrow up to \$600,000 in new Agency of Natural Resources VEDA administered debt, or similar government-subsidized loans, is appropriate and consistent with the general good. If VEDA or other government-sponsored funds are not now available to the Company, I recommend against granting unconditioned borrowing approval to unspecified lending arrangements at this time. Instead, I suggest the petitioner reapply with details of its alternative financing plan.

Based on the petition and the Department's determination, and pursuant to 30 V.S.A. § 8, I hereby report the following findings and conclusions to the Board in support of granting, but limiting, the petitioner's request for permission under 30 V.S.A. § 108(a) to borrow up to \$600,000 from the Vermont Agency of Natural Resources, administered by VEDA, or comparable funding sources.

II. FINDINGS

1. Crystal Springs is a corporation organized under the laws of the State of Vermont and is engaged primarily in the operation of a public water system located principally within the Town of East Montpelier, Vermont. Petition at 1.

2. The Company is seeking capital to fund a construction plan which includes three phases, commencing with the replacement of 9,500 feet of old and undersized transmission lines (Phases 1 and 2) at a cost of \$352,500. Phase 3 involves the construction of a backup reservoir. Department letter dated March 26, 2001.

3. Due to the age of the current infrastructure, the water system is experiencing problems such as corrosion on the inside diameter of the pipe, leaks and resultant poor water pressure. The proposed expenditures will correct these problems. Hedges letter dated November 12, 2001.

4. The WSD agrees that the proposed projects are needed and that once the work is completed, the Crystal Springs water system will be in substantial compliance with WSD requirements. DPS letter dated January 18, 2002; Hedges letter dated November 12, 2001.

5. The proposed VEDA loan will be secured, carry an interest rate of 3%, and will be payable over 20 years. Petition at 3.

6. In the eventuality that Crystal Springs does not receive VEDA funds, the Company will consider pursuing alternative financing arrangements which may be available, including self-financing and/or a restructuring of its capital structure. *Id.*

7. Crystal Springs is not applying for a rate increase to cover the estimated additional interest expense of \$18,000 per annum at this time. Instead, the Company intends to book interest during construction for recognition in rate base during the next rate proceeding. In addition, the stockholders have agreed to the restructuring of company stockholder loans. *Id.*

8. The incurrence of up to \$600,000 under VEDA funding is consistent with the general good of the State of Vermont. Findings 1 through 7, above; Department letter dated January 18, 2002.

III. CONCLUSION

I recommend that the Company's petition to borrow up to \$600,000 from the Vermont Agency of Natural Resources, administered by VEDA, be approved by the Board as consistent with the general good of the State of Vermont. The petitioner should be encouraged to make every reasonable effort to access low-cost VEDA funds available to privately-owned public water systems. Despite the benefits which would result from the proposed capital projects, if VEDA funds, or comparable government-sponsored loans, are not available to the Company, I do not recommend granting it unrestricted approval to arrange other sources of capital. Instead, in that eventuality, the Company should be encouraged to submit an alternative funding proposal to complete the proposed capital projects.

I also recommend that this matter be decided without hearing or further inquiry.

The foregoing is hereby reported to the Public Service Board in accordance with the provisions of 30 V.S.A. § 8. This Proposal for Decision is being served on all parties to this proceeding in accordance with 3 V.S.A. § 811.

Dated at Montpelier, Vermont, this 13th day of May, 2002.

s/Hope G. Crifo

Hope G. Crifo
Hearing Officer

IV. BOARD DISCUSSION

We note that the petitioner is not requesting a rate increase at this time. However, the potential rate impact of this financing transaction and the construction project could be significant. Therefore, in the next invoice to customers, we direct the petitioner to inform them of this financing. The purpose of this informational letter is to provide users with a reasonable period of advance notice of potential future water costs.

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The Findings, conclusions and recommendations of the Hearing Officer are accepted.
2. The borrowing of up to \$600,000 by Theodore G. Hedges & Sons, Inc., d/b/a Crystal Springs Water Company, in Agency of Natural Resources Vermont Economic Development Agency administered debt, or other government-sponsored loans at substantially equivalent cost, as described in the findings of fact, is consistent with the general good of the State of Vermont.
3. Pursuant to 30 V.S.A. § 108, consent is given for Theodore G. Hedges & Sons, Inc., d/b/a Crystal Springs Water Company, to borrow up to \$600,000 from Vermont Economic Development funds, or other government-sponsored loans, as described in the findings of fact.
4. Within ten days of the closing of a VEDA or other government-sponsored loan enabled by this Order, the petitioner must file with the Public Service Board and the Vermont Department of Public Service the final loan closing documents and signed approvals from WSD and VEDA.
5. This Order does not constitute approval of the underlying capital structure that may result from the new debt. Nothing in this approval shall preclude the Department of Public Service or any other party, or the Public Service Board, from reviewing and/or challenging the resulting capital structure in any future proceedings.

6. This Order does not ensure the recoverability in future rates of interest on the loan incurred during construction.

Dated at Montpelier, Vermont, this 15th day of May, 2002.

<u>s/Michael H. Dworkin</u>)	
)	PUBLIC SERVICE
)	
<u>s/David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: May 15, 2002

ATTEST: s/Susan M. Hudson

Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or mail) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: Clerk@psb.state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.